

Science for Environment Policy

How corporate governance influences environmental performance

A recent study has investigated how the relationships between a company's owners, managers and boards of directors may influence its environmental performance. The findings indicate that environmental performance is higher in companies with powerful CEOs, who are also chairpersons on their board of directors.

Many companies aim to have a positive impact on stakeholders, including the public, and the environment through corporate social responsibility (CSR) programmes, and some include social impacts in their corporate goals. While voluntary initiatives, such as the UN Global Compact¹ and International Corporate Governance Network², encourage companies to incorporate social goals into their governance agenda, few offer any detailed guidance on building socially accountable governance structures.

The researchers decided to focus specifically on environmental aspects of social responsibility. They refer to their approach as 'fact-based research', which may eventually provide the groundwork for new theories about the relationship between governance structure and social and environmental impacts.

Their study is based on analysis of the governance and environmental performance of 313 companies listed in an index of the USA's top publically traded companies between the years 1997-2005. Most of the companies were from five industries that typically have a large environmental impact: food; chemicals; machinery; electronics and instruments; and electric, gas and sanitary services. Overall, governance structure seemed to have an important but complex relationship with environmental performance. Environmental performance was influenced by how boards of directors were set-up, how companies were managed and how they were owned.

The researchers measured their environmental performance in terms of environmental strengths (strategies introduced to improve environmental performance) and environmental concerns (incorporating pollution). Chief executives had a key influence - companies with powerful CEOs, who were also chairpersons on their board of directors, had more environmental strengths. This finding contradicts current thinking on financial performance, which indicates that it is beneficial to separate the roles of CEO and chairperson of the board, and maintain an independent board of directors. The results therefore hint that the type of governance structure that maximises profits is not necessarily one that will benefit social and environmental aims.

Another important aspect was long-term investment. Previous research has often tended to assume that long-term investors encourage companies to take their environmental responsibilities more seriously. However, the study suggests that this is only true in companies with boards that include outside members. The researchers say this demonstrates that investors are willing to wait for environmental benefits, as long as independent monitoring exists.

According to the researchers, their fact-based approach represents a first step towards understanding the relationship between corporate governance and environmental performance.



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1. See: www.unglobalcompact.org/index.html

2. See: www.icgn.org